

Message Text

LIMITED OFFICIAL USE

PAGE 01 LISBON 03798 01 OF 02 221902Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 EB-08 TRSE-00 STR-07 OMB-01 CEA-01
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01
AGRE-00 /114 W

-----080448 222024Z /65

R 221632Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5795
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMCON OPORTO
AMCON PONTA DELGADA
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 3798

BRUSSELS FOR EEC
GENEVA FOR MTN
PARIS ALSO FOR OECD

E. O. 11652: N/A
TAGS: ECON, EFIN, PO
SUBJECT: ECONOMIC DEVELOPMENTS

REF: LISBON 3507

BEGIN SUMMARY: HAVING REACHED AGREEMENT WITH IMF ON SECOND
TRANCHE STANDBY, GOP HAS DRAWN DOWN 200 MILLION DOLLARS OF USG
399MILLION DOLLAR LOAN. EXCHANGE AND INTEREST RATES UNDERWENT
SIGNIFICANT MOVEMENT. GOP HAS MODIFIED MOTOR
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 03798 01 OF 02 221902Z

VEHICLE TAXES, ESTABLISHED NEW WAGE LEVELS FOR PUBLIC
EMPLOYEES, AND PROMISED TO REVISE ITS IMPORT LISCENSE POLICY.
GOP DESIGNATED DR. SILVA LOPES, CENTRAL BANK GOVERNOR, AS CHAIR-
MAN OF COMMITTEE NEGOTIATING PORTUGAL'S ENTRANCE INTO EUROPEAN
COMMUNITY.

1. GOP DEFENDS IMF AGREEMENT: PM MARIO SOARES TOOK TO THE

AIRWAYS MAY 10 TO EXPRESS OPTIMISM IN THE VIABILITY OF HIS PS-CDS GOVERNMENT AND IN PORTUGAL'S ECONOMIC FUTURE (REFTEL) STATING THAT THE RECENTLY-CONCLUDED NEGOTIATIONS WITH THE IMF PERMIT THE COUNTRY TO VIEW ITS FINANCIAL SITUATION "WITH SOME CONFIDENCE," SOARES SAID THAT THE AGREEMENT WOULD HELP THE NATION TO MAINTAIN ITS GOLD RESERVES AND NATIONAL INDEPENDENCE, AND WOULD ENCOURAGE INVESTMENT FROM BOTH INTERNAL AND EXTERNAL SOURCES. ACKNOWLEDGING THAT THE IMF ACCORD AND THE ASSOCIATED FOREIGN LOANS WOULD NOT RESOLVE PORTUGAL'S BASIC PROBLEMS, HE CALLED FOR INCREASED PRODUCTION AND SELF-DISCIPLINE. MANY OBSERVERS CHARACTERIZED SOARES' PRESENTATION AS OVERLY OPTIMISTIC. "O DIARIO", THE PCP MOUTHPIECE, WAS ESPECIALLY CRITICAL. IT CLAIMED AGAIN THAT THE IMF HAD GAINED CONTROL OF PORTUGAL'S ECONOMY AND WARNED THAT HIGHER INTEREST RATES WOULD CAUSE NUMEROUS BANKRUPTCIES AND HIGHER UNEMPLOYMENT. THE RECENT RISE IN INTEREST RATES AND DISCRETE ESCUDO DEVALUATION ARE THE MOST VISIBLE IMMEDIATE EFFECTS OF THE IMF AGREEMENT. THE SOARES GOVERNMENT IS LIKELY ALSO TO USE A STRING OF ANNOUNCEMENTS, SIMILAR TO THAT OF THE U. S. LOAN DRAWDOWN, TO CONVINCE THE PUBLIC THAT THE IMF AGREEMENT MEANS MORE THAN SACRIFICE AND THAT IT OPENS THE WAY FOR A SOLUTION OF PORTUGAL'S ECONOMIC PROBLEMS.

2. NEW MOTOR VEHICLE TAX RATES AND LEGISLATION: GOP HAS ANNOUNCED AVERAGE INCREASE OF ABOUT 33 PERCENT IN MOTOR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LISBON 03798 01 OF 02 221902Z

VEHICLE TAX LEVIED ON OWNERS OF AUTOMOBILES, MOTORCYCLES, AIRCRAFT AND PLEASURE WATERCRAFT. IN ADDITION, LEGISLATIVE ASSEMBLY HAS APPROVED SHARPLY HIGHER SALES TAX ON STATION WAGON AUTOMOBILES. IN 1977 ABOUT 89 PERCENT OF ALL AUTOMOBILES SOLD WERE STATION WAGONS BECAUSE OF THEIR FAVORED TAX TREATMENT. NEW LEGISLATION ABOLISHES THIS ADVANTAGEOUS TAX TREATMENT AND EFFECTIVELY RAISES AVERAGE AUTOMOTIVE SALES TAX. THIS MEASURE IS EXPECTED TO DEPRESS SIGNIFICANTLY MARKET DEMANDS FOR PASSENGER VEHICLES.

3. LABOR DEVELOPEMNTS: CONTRACT NEGOTIATIONS ARE EITHER UNDERWAY OR ABOUT TO BEGIN IN SEVERAL KEY SECTORS, INCLUDING IMPORTANT CIVIL CONSTRUCTION AND METALLURGICAL INDUSTRIES. 180,000 CIVIL CONSTRUCTION WORKERS STRUCK FOR FOUR HOURS ON MAY 18 IN SUPPORT OF WAGE DEMANDS AND ARE THREATENING STRIKES OF LONGER DURATION. METALLURGICAL INDUSTRY IS BRACING ITSELF FOR TOUGH NEGOTIATIONS NEXT MONTH WITH UNIONS ALREADY CONTEMPLATING STRIKE ACTION. IN PUBLIC SECTOR, TEACHER AND PUBLIC SERVICE WORKER UNIONS HAVE EXPRESSED GENERAL SATISFACTION WITH NEW WAGE SCALES FOR PUBLIC WORKERS, BUT ARE THREATENING TO RENEW NATIONWIDE STRIKE ACTION IF GOP PERSISTS IN ITS REFUSAL TO GRANT THEM COLLECTIVE

BARGAINING RIGHTS. THUS FAR GOVERNMENT HAS MAINTAINED THAT, IN ACCORDANCE WITH EXISTING LAWS GOVERNING PUBLIC WORKERS, UNIONS HAVE RIGHT TO DISCUSS BUT NOT TO NEGOTIATE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LISBON 03798 02 OF 02 221902Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
ICA-11 AID-05 EB-08 TRSE-00 STR-07 OMB-01 CEA-01
COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01
AGRE-00 /114 W

-----080444 222024Z /65

R 221632Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5796
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMCON OPORTO
AMCON PONTA DELGADA
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 3798

4. EASING OF IMPORT RESTRICTIONS: WHILE VISITING NORTHERN PORTUGAL, SECY OF STATE FOR FOREIGN TRADE CARLOS FILIPE ASSURED PORTUGAL'S BUSINESS COMMUNITY THAT GOP HAS NO INTENTION OF IMPOSING RESTRICTIONS ON IMPORT OF RAW MATERIALS, SPARE PARTS, AND INDUSTRIAL MACHINERY. HE CRITICIZED MINISTRY'S PAST PRACTICE OF DELAYING AND, AND IN SOME CASES, REFUSING ISSUANCE OF IMPORT LICENSES. FILIPE OBSERVED THAT IMPORTS OF NON-ESSENTIAL GOODS HAS ALREADY BEEN REDUCED TO ABOUT 10 PERCENT OF TOTAL IMPORTS. REMAINING 90 PERCENT, HE SAID, COMPRISE ESSENTIAL RAW MATERIALS, ENERGY, AND MACHINERY. COMMERCE MINISTER BASILIO HORTA HAD PREVIOUSLY INFORMED EMBASSY THAT PRACTICE OF ISSUING LICENSES ON BASIS ON 1976-77 IMPORT LEVELS WOULD BE REPLACED BY A MORE FLEXIBLE SYSTEM GIVING PRIORITY TO ESSENTIAL RAW MATERIALS AND MACHINERY.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 03798 02 OF 02 221902Z

5. GOP MINISTER S ATTEND COPENHAGEN EC MEETING: MINISTERS OF FOREIGN AFFAIRS SA MACHADO AND OF FINANCE AND PLANNING VITOR CONSTANCIO ATTENDED RECENT EC MEETING IN COPENHAGEN. ON THEIR RETURN TO LISBON THEY CONFIRMED THAT EC EXECUTIVE COMMITTEE WILL, WITHIN THE MONTH, RECOMMEND PORTUGAL'S ADMISSION TO THE COMMUNITY. FORMAL NEGOTIATIONS ARE EXPECTED TO BEGIN IN SEPTEMBER OR OCTOBER OF THIS YEAR, FOLLOWING EC COUNCIL OF MINISTERS OFFICIAL APPROVAL OF EXECUTIVE COMMITTEE'S PRELIMINARY REPORT. GOP HAS NAMES DR. SILVA LOPES, BANK OF PORTUGAL GOVERNOR, TO REPLACE VITOR CONSTANCIO AS CHAIRMAN OF PORTUGAL'S EC NEGOTIATING COMMITTEE.

6. ESCUDO RATE: ESCUDO/DOLLAR BUY RATE, WHICH STOOD AT 44.834 ON MAY 5, CLIMBED ABOVE 45 PER DOLLAR FOR THE FIRST TIME ON MAY 8 AND CLOSED AT 45.578 ON FRIDAY, MAY 19. BLOOMFIELD

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON03798
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: ALSO FOR USMTN
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780215-1047
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780534/aaaabcee.tel
Line Count: 191
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 10bd8a99-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LISBON 3507
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2617857
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS
TAGS: ECON, EFIN, PO
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/10bd8a99-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014